

Message Text

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S E C R E T SECTION 1 OF 4 WARSAW 5522

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EO 11652: GDS
TAGS: PFOR, ECON, SCUL, PO, US, PL
SUBJECT: NEW INITIATIVES TOWARD POLAND

REF: (A) STATE 183321, (B) WARSAW 2194

1. SUMMARY. WE WELCOME THE OPPORTUNITY TO CONTRIBUTE
TO THE DEPARTMENT'S REPOSE TO THE NSC REQUEST. POLAND'S
MOST IMMEDIATE NEEDS LIE IN THE ECONOMIC AREA, BUT THE USG
COULD ALSO BE FORTHCOMING IN EXCHANGES, VISITS, AND CULTURAL
RELATIONS. END SUMMARY

2. OUR RECENT POLICY ASSESSMENTS AND THE 1973 PARA ON
POLAND EMPHASIZED THE LIMITATIONS ON THE ROOM FOR MANEUVER
AVAILABLE TO THE POLISH LEADERSHIP. AT THE SAME TIME,
HOWEVER, THAT LEADERSHIP IN THIS, IT IS SUPPORTED BY THE POLISH
PEOPLE. CLEARLY SEES POLAND'S NATIONAL INTERESTS BEING SERVED
THROUGH A SOMEWHAT CLOSER RELATIONSHIP WITH THE U.S. AND
THE WEST IN GENERAL. ITS POLICIES, PARTICULARLY IN THE
ECONOMIC REALM, HAVE BEEN BASED ON THIS PERCEPTION
SINCE FIRST SECRETARY GIEREK ASSUMED POWER IN 1970.
FOR A VARIETY OF REASONS, INCLUDING MISMANAGEMENT ON
THE PART OF THE LEADERSHIP, GIEREK'S "OPENING TO THE
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WEST" IS NOW RUNNING INTO SERIOUS DOFFICULTIES. ANY
RECONSIDERATION OF US POLICY TWOARD POLAND SHOULD START
FROM THE PREMISE THAT THE OBJECTIVES WE HAVE PURSUED
HERE OVER RECENT YEARS (I.E., TO ENCOURAGE A GREATER
DEGREE OF INDEPENDENCE FROM MOSCOW, TO INCREASE CONTACTS
AND ECONOMIC INTERCOURSE, AND TO FOSTER LIBERALIZATION
OF POLAND'S INTERNAL REGIME) ARE STILL VALID. WE CONTINUE

TO BELIEVE THAT GIEREK, OR SOMEONE LIKE HIM, OFFERS THE BEST HOPE FOR MOVING THIS COUNTRY IN DIRECTIONS COMAPTIBLE WITH OUR OBJECTIVES.

3. WE ARE, HOWEVER, NOT IN A POSITION TO MAKE OR BREAK GIEREK, TO SOLVE THIS COUNTRY'S PROBLEMS, OT TO BRING ABOUT A RADICAL AND SUDDEN TRANSFORMATION OF POLAND'S POLITICAL AND ECONOMIC SYSTEM. OUR EXPECTATIONS MUST THRERFORE BE LIMITED AND OUR MANEUVERS SUBTLE. OTHERWISE, WE COULD TRIGGER A REACTION WIHC WOULD COMPROMISE OUR PROPOSES AND STRAIN THE WHOLE FABRIC OF EAST-WEST DETENTE. IN THE FOLLOWING PARAGRAPHS, WE SKETCH OUT AREAS IN WHICH OUR ACTIONS MIGHT HAVE THE MOST TELLING EFFECT AND IN WHICH THE KIND OF SIGNAL ENVISAGED BY THE NSC WOULD BE MOST CLEARLY UNDERSTOOD.

4. EXCESS ZLOTYS AND JOINT EFFORTS IN SCIENCE AND TECHNOLOGY. DURING THE PREVIOUS ADMINISTRATION, THE ZLOTY WAS REMOVED FROM THE LIST OF CURRENCIES EXCESS TO USG NEEDS, EFFECTIVE DECEMBER 31, 1976. POLAND IS THE ONLY COUNTRY WITH WHICH WE CONCLUDED PL-480 AGREEMENTS WHICH IS REQUIRED TO BUY BACK FOR DOLLARS THE LOCAL CURRENCY IT PAID FOR PL-480 DELIVERIES. THE EFFECT OF THIS DECISION IS THAT POLAND MUST FIND OVER \$20 MILLION ANNUALLY TO BUY BACK THESE ZLOTYS. IN THE PROCESS OF DELISTING THE ZLOTY, IT BECMAE NECESSARY TO CONCLUDE
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AN AGREEMENT TO ESTABLISH A JOINT FUND (THE MARIE SKLODOWSKA-CURIE FUND), TO WHICH EACH PARTNER IS OBLIGATED TO CONTRIBUTE THE EQUIVALENT OF \$30 MILLION WORTH OF ZLOTYS. THIS FUND WILL ENABLE US TO CONTINUE TO FINANCE OUR JOINT RESEARCH PROJECTS ROUGHLY THROUGH 1981. THEREAFTER, IF THE U.S. WISHES TO SEE THESE RESEARCH PROGRAMS CONTINUE, THE U.S. AGENCIES INVOLVED WILL HAVE TO PROVIDE DOLLAR FUNDS -- A CHANGE WHICH WILL ALMOST SURELY RESULT IN A SUBSTANTIAL DIMINUTION. IF NOT CESSATION, OF JOINT US-POLISH RESEARCH.

5. IT IS MY UNDERSTANDING THAT THE SECRETARY OF THE TREASURY HAS THE AUTHORITY TO LIST OR DELIST FOREIGN CURRENCIES AS EXCESS TO USG NEEDS. IF THIS IS SO, WHAT ONI SECRETARY HAS DELISTED, ANOTHER MIGHT LIST. I STRONGLY RECOMMEND THAT A FRESH LOOK BE TAKEN AT THIS SUBJECT, AND THAT THIS REVIEW BE ONE OF THE PRIME RECOMMENDATIONS IN THE PAPER FORWARDED TO THE NSC. OF COURSE, I FAVOR THE CONTINUATIONS OF OUR JOINT RESEARCH PROGRAMS BEYOND 1981. ANOTHER LONG-TERM SIGNIFICANCE OF A DECISION TO DECLARE THE ZLOTY EXCESS WOULD BE THAT THE POLISH GOVERNMENT'S DEBT-SERVICE BURDEN WOULD

BE LIGHTENED BY THE EXTENT TO WHICH WE DRAW DOWN OUR ZLOTY ACCOUNTS FOR AGREED PURPOSES. THIS MAY NOT REPRESENT A LOT OF MONEY, BUT IT WOULD BE A POLITICAL GESTURE WITH SOME FINANCIAL CONSEQUENCE, AND ONE THAT WOULD MARK A COMPLETELY NEW DEPARTURE BY A NEW ADMINISTRATION -- AND WOULD BE RECONGNIZED AS SUCH BY THE POLISH LEADERSHIP.

6. ECONOMIC AND TRADE INITIATIVES. THE LEADERSHIP CLEARLY REGARDS ECONOMIC WEAKNESS AS THE MOST PRESSING PROBLEM FACING IT OVER THE NEXT THREE-TO-FIVE YEARS. STEPS TAKEN SO FAR TO DEAL WITH THE MOUNTING DEBT BURDEN, AGRICULTURAL DIFFICULTIES, MARKET SHORTAGES, AND CONTINUED LOW LABOR PRODUCTIVITY HAVE ALL PROVEN TO BE TOO LITTLE AND TOO LATE. WE SEE LITTLE LIKELIHOOD THAT THE PRESENT
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LEADERSHIP IS PREPARED TO MAKE FUNDAMENTAL CHANGES IN POLAND'S ECONOMIC SYSTEM, EVEN IF IT WISHED TO DO SO. WE MUST, THEREFORE, ASSUME THAT ANY ASSISTANCE WE RENDER WILL BE USED TO TRY TO MAKE THE PRESENT SYSTEM WORK BETTER, AND IN THE PROCESS, IMPROVE THE LOT OF THE AVERAGE POLE -- THE AVOWED POLITICAL PLATFORM ON WHICH GIEREK STANDS. ALTHOUGH THIS EMBASSY HAS INSUPERABLE DOUBTS ABOUT THE LINGER-TERM ABILITY OF CENTRALLY PLANNED ECONOMIES IN GENERAL TO FUNCTION EFFICIENTLY, WE BELIEVE OUR OVERRIDING INTEREST IN STABILITY IN EASTERN EUROPE AND OUR SUPPORT FOR MORE MODERATE REGIMES JUSTIFIED SOME HELP TO GIEREK AND HIS ASSOCIATES. WE RECOMMEND SPECIFICALLY THE FOLLOWING ACTIONS OVER THE NEXT FEW MONTHS.

A) EXPANSION OF AGRICULTURAL CREDITS. OUR ABILITY TO PROVIDE INCREASED LEVELS OF AGRICULTURAL CREDITS ON EASIER TERMS COULD BE OUR STRONGEST ECONOMIC TOOL WITH REGARD TO POLAND. THIS IS THE AREA IN WHICH THE GOP TRADITIONALLY LOOKS TO THE US FOR SUPPORT, AND THIS YEAR OF AVERAGE OR BELOW-AVERAGE CROPS IS NO EXCEPTION. WE ASSURED THE POLES IN THE AUGUST 1976, LETTER FROM FORMER SECRETARY BUTZ TO MINISTER OF AGRICULTURE BARCIKOWSKI THAT CONTINUITY IN OUR AGRICULTURAL CREDIT POLICY IS AN IPORTANT ELEMENT IN OUR BILATERAL RELATIONS. WE GOT IMPORTANT MILEAGE AFTER THE JUNE FOOD-PRICE DEBACLE. A SIGNIFICANT EXPANSION OF THESE LINES OF CREDIT WOULD BOTH IMPROVE THE GOP'S PAYMENTS POSITION AND BE A HIGHLY VISIBLE SING TO THE POLISH LEADERSHIP OF CONTINUED USG SUPPORT. THE GOP HAS REQUESTED ABOUT \$240 MILLION IN CCC CREDITS FOR FY 1978 (UP BY ABOUT \$70 MILLION FROM FY 1977) AND WOULD LIKE TO REPAY THEM

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IN ONE LUMP SUM AT THE END OF THREE YEARS. WE SHOULD TRY TO RESPOND FAVORABLY AT AN EARLY DATE. ALTHOUGH THE POLES MAY NOT FORMALLY REQUEST RENEWAL OF PL-480 SALES, THEY CLEARLY WOULD LIKE TO SEE THIS HAPPEN. IF TITLE I SALES UNDER PL-480 CAN BE RENEWED AT SIZEABLE LEVELS, THIS WOULD HAVE GREATER IMPACT ON THE POLISH LEADERSHIP THAN ANY OTHER ECONOMIC STEP WE CAN TAKE AT THIS TIME. A JOINT CCC-PL-480 PROGRAM WOULD PROBABLY ALSO ALLOW US TO OBTAIN FIRM COMMITMENTS FROM THE GOP TO PURCHASE 4-MILLION TO 5-MILLION TONS OF GRAIN FROM THE US PER YEAR, AS OPPOSED TO OUR CURRENT BEST-EFFORTS UNDERSTANDING FOR THE PURCHASE OF BETWEEN 2-MILLION AND 3-MILLION TONS. IF SIZEABLE TITLE I SALES ARE FEASIBLE, THEY MIGHT PERMIT US TO NUDGE THE POLES TOWARD MEMBERSHIP IN THE IMF, SOMETHING WE SHOULD SUGGEST TO THEM IN ANY EVENT (SEE "C" BELOW). (WE WOULD ALSO INSIST ON PUBLICATION OF MONTHLY FOREIGN-TRADE STATISTICS, WHICH WERE DISCONTINUED THIS MARCH. IN ADDITION, RENEWED PL-480 SALES WOULD GIVE US AN IMPORTANT ADDITIONAL SOURCE OF FUNDING FOR PROMOTING EXPANDED CULTURAL AND SCIENTIFIC EXCHANGES. THE POTENTIAL BENEFITS TO THE US MIGHT BE SUBSTANTIAL. BEFORE CONCLUDING ANY NEW PL-480 AGREEMENT, OR SUBSTANTIALLY INCREASING CCC CREDITS, WE SHOULD INSIST

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UPON FULFILLMENT OF THE COMMITMENTS UNDERTAKEN BY THE GOP TO MEET OUR PROPERTY NEEDS IN THOS COUNTRY.

THE GOP IS IN DEFAULT ON THESE COMMITMENTS. IT SHOULD GIVE US THE SCHOOL BUILDING AND AGREE TO A NOMINAL RENTAL FOR THE GROUND ON WHICH IT STANDS. IT SHOULD FINALLY ARRANGE FOR US TO SIGN A LEASE FOR THE BASZTOWA APARTMENT IN KRAKOW AND OTHER NEEDED PROPERTIES.)

B) ACTIONS ON ANTI-DUMPING REGULATIONS. OUR ECONOMIC INITIATIVES OUGHT ALSO TO INCLUDE ATTEMPTS TO MINIMIZE THE OBSTACLES PRESENTED BY THE ANTI-DUMPING AND COUNTER-VAULTING-DUTY PROVISIONS OF THE TRADE ACT. OUR EFFORTS IN THIS REGARD WILL NOT BE PERSUASIVE UNLESS A SOLUTION IS FOUND TO THE GOLF-CART CASE WHICH WILL ALLOW PEZETEL TO REMAIN IN THE US MARKET. WE NEED TO SHOW THE GOP THAT WE ARE ACTIVELY ADDRESSING THIS PROBLEM. FOR THE IMMEDIATE FUTURE, WE SHOULD GIVE MORE THOUGHT TO STRUCTURING CONSULTATIONS WITH CUSTOMS ON THE PRICING OF FUTURE EXPORTS. WE REALIZE THAT THIS IS NOT AN EASY UNDERTAKING FOR CUSTOMS, BUT OUR GOAL SHOULD BE TO HEAD OFF, OR AT LEAST MINIMIZE FUTURE PROBLEMS OF POLISH EXPORTERS WITH DUMPING. WE MIGHT ALSO ASK THE INTERNATIONAL TRADE COMMISSION TO ESTABLISH FIRM CRITERIA FOR JUDGING WHEN "DUMPED" POLISH EXPORTS INJURE US PRODUCERS. SINCE CONSULTATIONS WITH CUSTOMS ON PRICING OF FUTURE EXPORTS WOULD BE OF UNCERTAIN VALUE WHEN NO THIRD-COUNTRY PRODUCER EXISTS, A CLEARER UNDERSTANDING OF THE ITC'S GUIDELINES WILL BE IMPORTANT. (PERHAPS THE ITC COULD GIVE AN ADVISORY OPINION ON TREATMENT OF IMPORTS OF AIRCRAFT ENGINES AND EQUIPMENT. IN THE ABSENCE OF SOME INDICATION AS TO HOW ITS EXPORTER OF AVIATION EQUIPMENT MIGHT PROCEED, THE GOP WILL SOON QUESTION THE VALUE OF OUR BILATERAL AIRWORTHINESS AGREEMENT

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CONCLUDED LAST NOVEMBER.) FURTHER, WE MIGHT PROPOSE A SERIES OF CONSULTATIONS AIMED AT ESTABLISHING SOME BASIS FOR CONSTRUCTING REALISTIC HARD CURRENCY PRICES BASED ON PRODUCTION AND COST INFORMATION OF POLISH PRODUCERS. THIS WOULD BE A DIFFICULT TASK, BUT IT COULD BE FACILITATED IF THE GOP AGREED TO MAKE PUBLIC ITS SHADOW INTERCOMPANY EXCHANGE RATE.

C) SUPPORT FOR IMF MEMBERSHIP. A SIGNAL TO THE POLES THAT WE WOULD SUPPORT THEIR APPLICATION TO JOIN THE IMF WOULD BE WELL RECEIVED. THIS WOULD REMOVE AN ELEMENT OF UNCERTAINTY THAT MAY HAVE MADE THE POLES RELUCTANT TO APPROACH THE SOVIETS ON THIS QUESTION. POLAND'S MEMBERSHIP IN THE IMF WOULD CLEARLY SERVE OUR MUTUAL INTERESTS. IF WE DECIDE TO OFFER A SUBSTANTIAL PL-480 PACKAGE OR OTHER SIZEABLE ASSISTANCE, THEN WE SHOULD GO BEYOND A POSITION OF "READINESS TO SUPPORT"

AND LET THE GOP KNOW THAT IMF MEMBERSHIP IS THE ONLY
NATURAL COURSE FOR HANDLING THE FUNDAMENTAL PAYMENTS
PROBLEMS WHICH POLAND FACES.

7. WE SHOULD ALSO CONSIDER TAKING STEPS IN THE
FOLLOWING AREAS, WHICH WOULD REQUIRE MORE TIME TO
BRING TO FRUITION.

A) ENERGY AND INDUSTRIAL COOPERATION. WE SHOULD
FIND SOME WAY OF RESPONDING MORE POSITIVELY TO HIGH-LEVEL
POLISH INTEREST IN CONCLUDING LONG-RANGE ENERGY AND
INDUSTRIAL-COOPERATION AGREEMENTS WITH US FIRMS. THE
USG CANNOT SIGN CONTRACTS OR COMMIT US FIRMS. WE
SHOULD HOWEVER, GO BEYOND OUR TRADITIONAL ANSWER OF
"TALK TO THE U.S. COMPANIES." PARTICULARLY WITH REGARD
TO PROJECTS IN THE HIGHLY VISIBLE ENERGY AND SHIP-CONSTRUCTION
SECTORS, WHICH IN SOME WAYS FALL UNDER THE PURVIEW OF
THE USG. IN HIS MEETING WITH THE US DELEGATION TO THE
US-POLISH ECONOMIC COUNCIL, GIEREL EMPHASIZED THE
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BROAD POSSIBILITIES FOR COOPERATION ON THE ENERGY FRONT,
PARTICULARLY IN GASIFICATION AND LIQUEFACTION OF COAL,
AND SECONDARILY IN COAL TRANSPORTATION BY SLURRY.
SUBSEQUENTLY, MINISTER OF FOREIGN TRADE OLSZEWSKI HAS
RE-EMPHASIZED THESE THEMES. WE HAVE RESEARCH PROGRAMS
UNDER THE JOINT FUND AIMED AT THESE PROJECTS AND ARE
SENDING AN INDUSTRY-BUREAU OF MINES TEAM HERE IN SEPTEMBER
TO LOOK INTO COMMERCIAL AGREEMENTS IN THESE AREAS. WE
SHOULD TRY TO DO MORE. SINCE ENVIRONMENTAL PROBLEMS
ARE SUCH AN IMPORTANT OBSTACLE TO RAPID DEVELOPMENT
OF LARGE-SCALE COAL-CONVERSION PROJECTS IN THE US, SOME
FORM OF USG LOAN GUARANTEE OR OTHER ASSISTANCE TO
SLURRY PROJECTS IN POLAND MIGHT YIELD FASTER RETURNS
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FORM OF USG LOAN GUARANTEE OR OTHER ASSISTANCE TO
SLURRY PROJECTS IN POLAND MIGHT YIELD FASTER RETURNS
IN DEVELOPMENT OF TECHNOLOGY AND COST REDUCTION. WE
ARE CURRENTLY SEEKING TO SUPPORT ENERGY-DEVELOPMENT
UNDERTAKINGS IN ENERGY-POOR LDC'S, WHERE THE BALANCE-OF-
PAYMENTS RATIONALE AND THE POTENTIAL BENEFITS IN ENERGY
PRODUCTION ARE NOT STRONGER THAN IN POLAND. WE MIGHT ALSO
BE ABLE TO OFFER SOME ASSISTANCE THROUGH TECHNOLOGY FOR
SLURRY TRANSMISSION OF COAL, AND THE POSSIBLE DEVELOPMENT
OF A SLURRY LINE FROM KATOWICE TO NORTHERN ITALY

MIGHT PUT POLAND IN A POSITION OF TESTING THE COST-EFFECTIVENESS OF THIS TECHNOLOGY TO OUR BENEFIT. TIME WOULD BE REQUIRED TO REACH AGREEMENT ON LARGE-SCALE ENERGY PROJECTS, BUT WE COULD REAP REAL BENEFIT FROM A
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JOINT STATEMENT OF INTENT IN THIS AREA. WE ALSO THINK OUR EUROPEAN PARTNERS IN THE INTERNATIONAL ENERGY AGENCY WOULD LOOK FAVORABLY ON A US APPROACH TO POLAND IN THE COAL-CONVERSION AREA. RECENT REPORTS INDICATE THAT WEST GERMANY AND OTHER COUNTRIES ARE SENSITIVE TO RISING IMPORTS OF POLISH COAL. LIQUEFACTION AND GASIFICATION OF POLSI COAL ON A LARGE SCALE COULD OPEN UP NEW ENERGY SOURCES FOR WESTERN EUROPE.

B) SHIP CONSTRUCTION. THE MARITIME ADMINISTRATION IS CONSIDERING A POLISH PROPOSAL FOR TECHNICAL ASSISTANCE AND EXCHANGES IN THE ARE OF SHIP CONTRUCTION AND

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DESIGN (STATE 129184 AND WARSAW 4665). WE SHOULD RESPOND POSITIVELY TO THIS EXPRESSION OF INTEREST. THE SHIPBUILDING SECTOR IS SECOND ONLY TO THAT OF MINING IN IMPORTANCE AS A GENERATOR OF HARD CURRENCY AND AS A POLITICAL WEATHER VANE AMONG POLISH WORKERS.

C) INDUSTRIAL COOPERATION. WE MIGHT ALSO BE ABLE TO ASSIST THE POLES IN ACCELERATING THEIR CONTACTS WITH LARGE US FIRMS WHICH COULD BE POTENTIAL PARTNERS FOR INDUSTRIAL-COOPERATION VENTURES AND WITH MEDIUM-SIZE FIRMS WHICH COULD OFFER UNTAPPED MARKETING POTENTIAL IN THE US. THE MESSAGE OF SECRETARY KREPS TO THE ECONOMIC COUNCIL EXPRESSED STRONG OFFICIAL SUPPORT FOR SUCH UNDERTAKINGS, AND WE NEED TO GIVE SUBSTANCE TO THOSE WORDS. JOINT PROJECTS IN THE AGRICULTURAL SECTOR (IN ANIMAL HUSBANDRY, CROP-RAISING, AND FOOD-PROCESSING) AND IN THE CHEMICAL SECTOR ARE HIGH ON THE POLISH LIST OF PRIORITIES. TO THIS END, WE MIGHT POINT OUT TO THE POLES THAT THEY HAVE NOT EXPLOITED THE FLEXIBILITY OF US BANKS IN SUPPORTING LARGE INDUSTRIAL PROJECTS, PARTICULARLY IN THE AREA OF LOCAL-COST FINANCING.

D) JOINT VENTURES WITH US EQUITY. WE SHOULD ALSO
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TRY TO INTEREST US FIRMS IN DISCUSSING THE POSSIBILITY OF ESTABLISHING JOINT VENTURES WITH EQUITY PARTICIPATION IN POLAND. SUCH VENTURES WOULD HAVE TO HAVE A LARGE EXPORT COMPONENT. GOP OFFICIALS REALIZE THE REGULATIONS WHICH THEY PROMULGATED IN MAY, 1976, ARE NOT PERFECT AND HAVE NOT BREATHED A RUSH OF POTENTIAL INVESTORS. WE ARE CONVINCED, HOWEVER, THAT THE GOP WOULD REACT POSITIVELY TO A PROPOSAL TO ESTABLISH AN EXPORT-ORIENTED JOINT VENTURE.

E) EXIM FINANCING. A MOVE BY EXIM TO EASE ITS CREDIT TERMS, WITHIN THE BOUNDS OF ITS UNDERSTANDING WITH OTHER EXPORT-CREDIT INSTITUTIONS, WOULD CLEARLY SIGNAL OUR WILLINGNESS TO PROMOTE LARGE-SCALE INDUSTRIAL VENTURES WITH POLAND. WE REALIZE THAT EXIM CREDIT POLICIES ARE FORMULATED WITHIN LEGISLATIVE CONSTRAINTS AND WITH GLOBAL EXPORT AND CREDIT OBJECTIVES IN MIND. NEVERTHELESS, GOP ECONOMIC DECISION-MAKERS CONTINUE TO CITE OUR UNCOMPETITIVE FINANCING AS A MAJOR OBSTACLE TO CONCLUDING LARGE-SCALE INDUSTRIAL COOPERATION VENTURES. ANY MOVEMENT ON THIS FRONT WOULD THEREFORE BE HELPFUL.

F) MISCELLANEOUS. WE COULD TAKE SEVERAL OTHER STEPS WHICH WOULD REDOUND TO OUR POLITICAL CREDIT, BUT WHICH DO NOT FALL WITHIN THE DEFINITION OF BROAD ECONOMIC INITIATIVES. EASING OF PORT-CALL RESTRICTIONS WOULD BE SUCH A STEP; WE RECOMMEND THAT IT BE TAKEN. PROMOTION OF EXCHANGES WITH SMALL AMERICAN FIRMS, AS ENVISAGED IN THE SEPTEMBER, 1976, AGREEMENT BETWEEN THE US SMALL BUSINESS ADMINISTRATION AND THE POLISH MINISTRY OF INTERNAL TRADE IS

ANOTHER POSSIBILITY. WE MIGHT ALSO ASK EXIM TO INCLUDE UNDER ONE CREDIT LINE THE MANY POTENTIAL EXPORTS OF CONSUMER GOODS AND PRODUCTS USED IN POLAND'S LARGELY SECRET

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PRIVATE SERVICE SECTOR. THIS WOULD HELP THE POLES FINANCIALLY, SHOW SUPPORT FOR PRIVATE ENTERPRISE IN POLAND, AND HELP US GET SOME OF THE BUSINESS BEING SNATCHED BY EUROPEANS WHO INCLUDE THESE EXPORTS UNDER EXISTING OFFICIAL LINES OF CREDIT.

8. IN DISCUSSING THESE IDEAS WITH THE POLES, WE OUGHT TO POINT OUT THE NEED TO TAKE STEPS ON THEIR OWN -- PARTICULARLY IMF MEMBERSHIP AND CLEARER ENCOURAGEMENT OF LARGER PRIVATE FARMS--TO SHOW THEIR ABILITY TO DEAL WITH THE ECONOMY OVER THE LONG TERM. WE ARE NOT SUGGESTING THAT WE MAKE CREDITS OR OTHER ELEMENTS CONTINGENT ON GOP STEPS IN THESE DIRECTIONS. THE LIKELIHOOD, HOWEVER, THAT THE POLES WILL IN TIME NEED TO ASK OUR HELP IN RESCHEDULING THEIR DEBT MAKES IT ESSENTIAL THEY REALIZE NOW THAT THEY WILL NEED TO TAKE STEPS BEYOND THEIR POLICY OF SLOWING DOWN INVESTMENT IN ORDER TO GAIN A SYMPATHETIC EAR. IN THIS REGARD, WE AGREE WITH REF THAT WE SHOULD NOW CONSIDER HOW WE SHOULD REACT TO A POSSIBLE EVENTUAL REQUEST FOR RESCHEDULING. US ECONOMIC INITIATIVES AT THIS TIME MAY HELP THE POLES DELAY OR EVEN AVOID FORMAL RESCHEDULING. BUT WE SHOULD BE THINKING NOW OF HOW WE WOULD RESPOND IF THE REQUEST SHOULD COME.

9. VISITS. I STRONGLY RECOMMEND THAT THE SECRETARY MEET WITH FOREIGN MINISTER WOJTASZEK DURING THE UNGA. ANYTHING THE SECRETARY MIGHT SAY ABOUT OUR CONTINUED INTEREST IN IMPROVED RELATIONS WOULD FALL ON VERY RECEPTIVE EARS. IF, DURING A LATER TRIP TO EUROPE, THE SECRETARY COULD FOLLOW THIS MEETING WITH A BRIEF STOP IN WARSAW, THE IMPACT WOULD BE GREAT. I HOPE THAT GIEREK WILL BE INVITED TO VISIT THE U.S. AGAIN AT SOME POINT, PRESUMABLY IN 1978, BUT WE ASSUME THIS WILL HAVE TO FOLLOW A CARTER-BREZHNEV MEETING. IN THE MEANTIME, AS A POSSIBLE ALTERNATIVE TO A VANCE VISIT, WE RECOMMEND CONSIDERATION OF A VISIT TO POLAND BY VICE SECRET

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PRESIDENT MONDALE, AGAIN IN CONJUNCTION WITH A TRIP INVOLVING OTHER COUNTRIES AS WELL.

10. WE RECOMMEND EARLY DECISIONS ON INVITATIONS ALREADY OUTSTANDING TO FOREIGN MINISTER JERZY OLSZEWSKI AND MINISTER OF MINING LEJCZAK. WE SHOULD RECALL THAT FINANCE MINISTER KISIEL RECEIVED TREASURY SECRETARY SIMON IN WARSAW LAST YEAR AND IS THUS ELIGIBLE FOR A RETURN INVITATION TO WASHINGTON. ALSO, ON THE POLISH SIDE, A TRIP TO THE US BY VICE PREMIER PYKA AND/OR SYKSTUS OLESIK, DEPUTY CHAIRMAN OF THE PLANNING COMMISSION, WOULD BE USEFUL. FINALLY, WE SUGGEST AN IVP GRANT TO MINISTER OF CULTURE AND VICE PREMIER JOSEF TEJCHMA, ONE OF THE LIBERAL INFLUENCES IN GIEREK'S INNER CIRCLE AND A KEY POLICY-MAKER ON THE INTERNAL SCENE. IT WOULD BE RECIPROCALLY USEFUL IF ONE OR TWO US CABINET OFFICERS COULD COME TO POLAND DURING THE NEXT YEAR. GIVEN OUR GROWING AGRICULTURAL STAKE IN POLAND, WE WOULD BE PARTICULARLY PLEASED TO HAVE SECRETARY BERGLAND IN WARSAW. SECRETARIES ANDRUS, CALIFANO, AND KREPS WILL IN ANY EVENT RECEIVE INVITATIONS FOR RETURN TRIPS FROM MINISTERS LEJCZAK, SLIWINSKI, AND OLSZEWSKI.

11. CULTURAL. OUR CONTACTS AND PROGRAMS IN THE FIELDS OF PRESS, CULTURE, AND EXCHANGES HAVE EXPANDED MARKEDLY OVER RECENT YEARS, AND WE SEE NEW OPPORTUNITIES FOR THE FUTURE. WE HAVE MANAGED THIS EXPANSION SO FAR WITHOUT A FORMAL CULTURAL AGREEMENT, AND WE AGREE WITH THE DEPARTMENT THAT NONE IS NEEDED NOW. EVEN IF THE POLES SHOULD FORMALLY PROPOSE ONE, WE SHOULD DISCOURAGE SUCH A NEGOTIATION AS RESTRICTIVE AND UNNECESSARY IN VIEW OF THE ALREADY EXTENSIVE EDUCATIONS AND CULTURAL RELATIONS BETWEEN OUR TWO COUNTRIES.

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A) POLISH AND AMERICAN CULTURAL CENTERS IN NEW YORK CITY AND WARSAW. SUCH A FACILITY IN WARSAW WOULD GIVE US ACCESS TO MANY POLES WHO ARE STILL RELUCTANT TO VISIT THE CHANCERY AND WOULD ALSO PROVIDE A FLEXIBLE PROGRAMMING INSTRUMENT (THEATER, EXHIBIT HALL, LIBRARY) TO IMPROVE OUR CULTURAL PROGRAM. THERE IS AMPLE PRECEDENT FOR THIS. THE SOVIETS, MANY EASTERN EUROPEAN COUNTRIES, THE BRITISH

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THE FRENCH, THE ITALIANS, AND THE AUSTRIANS, HAVE CULTURAL CENTERS IN WARSAW. A CULTURAL CENTER IN NEW YORK WOULD SERVE THE FREQUENTLY EXPRESSED POLISH DESIRE TO DEVELOP THEIR OWN ACTIVITIES IN THE UNITED STATES. BUT THE NECESSARY COMMITMENT OF CONVERTIBLE CURRENCY BY THE POLES FOR THIS PROJECT WOULD REQUIRE HIGH LEVEL AUTHORIZATION. WE THEREFORE SUGGEST THAT THE PROPOSAL BE INTRODUCED DURING THE RECOMMENDED VISIT OF THE VICE PRESIDENT OR THE SECRETARY.

B) ENGLISH-LANGUAGE TEACHING. LONG TERM WESTERN AND AMERICAN INTERESTS IN POLAND WOULD BE FOSTERED BY GREATER FLUENCY IN ENGLISH ON THE PART OF EDUCATED POLES. WHILE THE STUDY OF RUSSIAN IS OBLIGATORY IN THE POLISH SCHOOL SYSTEM, ENGLISH IS THE MOST POPULAR FOREIGN LANGUAGE, ESPECIALLY AMONG YOUNGER POLES. BUT THE STANDARDS AND THE RESOURCES AVAILABLE FOR ENGLISH-TEACHING INSTRUCTION ARE STILL DEFICIENT. A RECENT CU-SPONSORED PROFESSIONAL STUDY OF THE EMBASSY'S ENGLISH-TEACHING ACTIVITIES RECOMMEND DEVELOPMENT OF AN AMERICAN TEAM APPROACH AT ALL EIGHT POLISH UNIVERSITIES. EACH TEAM WOULD CONSIST OF AN AMERICAN LITERATURE LECTURER AND TWO SPECIALISTS IN TEACHING ENGLISH AS A FOREIGN LANGUAGE (TEFL),
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ASSIGNED TO EACH UNIVERSITY. THE MINISTRY OF HIGHER EDUCATION STRONGLY SUPPORTS THIS RECOMMENDATION. BESIDES THE PROFESSIONAL ADVANTAGES, THE TEAM WOULD CONFER AN IMPLICIT POLITICAL BENEFIT BY EXPANDING THE VISIBLE AMERICAN PRESENCE AT EACH POLISH UNIVERSITY. THIS WOULD REQUIRE AN INCREASE IN THE NUMBER OF SENIOR FULBRIGHT LECTURERS FROM 14 TO 24 AND ADDITIONAL COST OF APPROXIMATELY \$160,000 IN THE CU ALLOCATION FOR POLAND.

C) EXPANDED FULBRIGHT PROGRAM. WE NEED TO EXPAND OUR FULBRIGHT PROGRAM IN OTHER FIELDS, PARTICULARLY THE SOCIAL SCIENCES AND THE HUMANITIES. THE POLES HAVE BEEN GENERALLY RECEPTIVE, BUT A PRACTICAL PROBLEM IS THE INADEQUATE ENGLISH COMPREHENSION OF MOST UNDERGRADUATE AND GRADUATE STUDENTS IN THESE FIELDS, WHICH MAKES LECTURE ASSIGNMENTS FOR A FULL ACADEMIC YEAR UNFEASIBLE. WE WOULD LIKE, HOWEVER, TO PROPOSE TO THE POLES SIX-TO-EIGHT SHORT-TERM FULBRIGHT LECTURERS (1-3 MONTHS EACH) IN THESE DISCIPLINES. A CU ALLOCATION OF APPROXIMATELY \$32,000 IS REQUIRED.

D) PRIVATE UNIVERSITY EXCHANGES. THE POLES HAVE WELCOMED THE DEVELOPMENT OF EXCHANGE PROGRAMS BY AMERICAN UNIVERSITIES AND PRIVATE INSTITUTIONS. ALTHOUGH OFTEN FINANCIALLY SUPPORTED BY THE DEPARTMENT, THESE PROGRAMS DO NOT BEAR THE US GOVERNMENT STAMP AND ARE THEREFORE MORE POLITICALLY PALATABLE. THESE AMERICAN ORGANIZATIONS ARE EXPERIENCING INCREASED FINANCIAL DIFFICULTIES WHICH THREATEN THEIR INTERNATIONAL PROGRAMS. FOR EXAMPLE, THE FORD FOUNDATION HAS ENDED ITS ONCE ACTIVE PROGRAM HERE AND IS DRASTICALLY REDUCING ITS SUPPORT OF IREX. WHILE OUR ABILITY TO PERSUADE SUCH INSTITUTIONS TO REVIVE THEIR POLISH PROGRAMS IS LIMITED, WE SHOULD SUSTAIN AND EVEN EXPAND OUR FINANCIAL SECRET

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SUPPORT OF THOSE UNIVERSITIES AND PRIVATE INSTITUTIONS (IREX AND ACLS) WHICH NOW HAVE ESTABLISHED GOOD PROGRAMS IN POLAND. RATHER THAN DIVERTING ALL OF OUR RESOURCES TO UNTESTED PROGRAMS, WE SHOULD ASSURE THAT THE EXISTING PROJECTS OF PROVEN HIGH QUALITY ARE CONTINUED AND, IF POSSIBLE, EXPANDED.

E) INFORMATION MEDIA GUARANTEE PROGRAM. SERIOUS CONSIDERATION SHOULD BE GIVEN TO RESTORING THE INFORMATION MEDIA GUARANTEE PROGRAM (IMG). LIMITATIONS ON THE FLOW OF WESTERN PUBLICATIONS ARE OFTEN JUSTIFIED BY THE POLES AND OTHER EASTERN EUROPEANS BY CITING THE SHORTAGE OF CONVERTIBLE CURRENCY. FACILITATING PURCHASES IN THE LOCAL CURRENCY WOULD REMOVE A MAJOR OBSTACLE TO THE DISTRIBUTION OF WESTERN PUBLICATIONS TO MEET THE HEAVY, UNSATISFIED DEMAND OF THE POLISH POPULATION. WE REALIZE THAT THIS PROPOSAL MAY NOT BE FEASIBLE EXCLUSIVELY FOR POLAND, BUT WE NEVERTHELESS BELIEVE IT SHOULD BE EXAMINED. DAVIES

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